

ago O'Hare International Airport **1983** Annual Financial Report

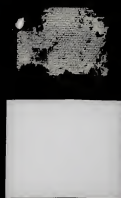
City of Chicago, Illinois

Harold Washington
Mayor

Walter K. Knorr
City Comptroller

Thomas Kapsalis
Commissioner of Aviation

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Chicago O'Hare International Airport **1983** Annual Financial Report

City of Chicago, Illinois

Harold Washington
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1983



June 15, 1984

City of Chicago
Harold Washington, Mayor

Department of Aviation
Thomas Kapsalis
Commissioner

City Hall, Room 1111
121 North LaSalle Street
Chicago, Illinois 60602
(312) 744-6892

The Honorable Harold Washington
Mayor
City of Chicago
Room 507 - City Hall
121 North LaSalle Street
Chicago, Illinois 60602

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AUG 28 1985

NORTHWESTERN UNIVERSITY

Dear Mayor Washington:

We are submitting with this letter the Annual Financial Report for the City of Chicago O'Hare International Airport for the year ending December 31, 1983 and results of operations. The report was prepared in conformance with generally accepted accounting principles and is presented using the reporting requirements set forth by the National Council of Governmental Accounting.

This letter is intended to provide background information highlighting the salient elements of the report and significant accomplishments at O'Hare International Airport.

DEPARTMENT OF AVIATION

The world's busiest airport for over 20 years, Chicago O'Hare International Airport is owned by the City of Chicago and operated and maintained by the Department of Aviation. The Department of Aviation is headed by Commissioner Thomas Kapsalis who has overall responsibility for the management and planning of Chicago's municipal airports. He is supported by First Deputy Commissioner Earl F. Hord. They are assisted by four Deputy Commissioners.

Deputy Commissioner Edward Levell, Jr. has the day-to-day responsibility for operations at O'Hare. Deputy Commissioner William T. Corbett is responsible for safety and security issues involving the airport. Deputy Commissioner John D. Drummond is responsible for planning, design, and development of airport projects. Deputy Commissioner Ivan L. Harlan is responsible for financial and administrative functions of the Department.

The Department has a staff of over 1,200 people who operate and maintain the public facilities at the airport. Approximately 28,000 employees of airlines, tenants, concessionaires, and the Federal government are also employed at the airport.

AIRPORT ACTIVITY

DEPARTMENT OF AVIATION

Chicago O'Hare International Airport is the busiest airport in the world as measured by total passengers and total aircraft operations. The airport ranked third in terms of total cargo handled during 1983. O'Hare's activity relative to the world's other largest airports is illustrated in Exhibit I.

From a record high of passengers, aircraft operations, and cargo volume in 1978, activity measures at O'Hare have generally decreased over the past five years as shown in Exhibit II. This trend of decreasing activity has, in general, been experienced at other major airports during this period. Although these decreases stand in marked contrast to the previous twenty-year rise in air transportation activity, forecasts by various government and private sources of future air traffic activity generally predict sustained, long-term growth. Based on the most recent information available, the future level of activity at Chicago O'Hare International Airport has been projected for 1995. Activity for the year of peak airport activity (1978), the most recent historical year (1983), and 1995 are shown as follows:

	<u>1978</u>	<u>1983</u>	<u>1995</u>
. Total Passengers	49,196,341	42,873,953	82,350,000
. Total Aircraft Operations	760,606	667,963	920,000

The diversity and number of airlines and the availability of air service at O'Hare results in many passengers using the airport as a place to change from one airline or aircraft to another. This large volume of connecting passengers results in O'Hare being the second largest connecting airport in the country.

OPERATIONS AND FINANCIAL MATTERS

DEPARTMENT OF AVIATION

In 1983, the O'Hare Budget totaled \$142,191,436; Chicago Midway Airport and Merrill C. Meigs Field are funded separately. Total revenues derived as a result of O'Hare International's operation in 1983 equalled \$93.3 million, which was net of \$6.8 million refund of flight fees to airlines, as compared to \$93.6 million for 1982. Flight fees and terminal area use charges amounted to \$55.1 million as compared to \$46.1 million for 1982. Concession income increased by approximately \$2.3 million whereas rentals reflect a decrease of \$4.8 million which were substantially reclassified to terminal area use charges as required under the new 1983 Use Agreement. The major differences are attributable to higher operating expenses and expansion costs for the O'Hare Development Program.

Total operating expenses, excluding depreciation and amortization, for the airport during 1983 amounted to \$81.5 million, an increase over the 1982 total of \$80.5 million. This increase is primarily the result of: 1) increased personnel costs, amounting to nearly \$2.0 million expended in connection with the O'Hare Development Program and an increased number of snow removal "ready-alerts", and an offsetting 2) decrease in repairs and maintenance costs reflective of anticipated construction under the O'Hare Development Program amounting to \$1.6 million.

There were several significant accomplishments at O'Hare during 1983.

A new Airport Use Agreement became effective in May, 1983. O'Hare International Airport's operations were divided into five cost/revenue centers which include: 1) airfield, 2) terminal, 3) parking and roadway, 4) cargo and flight kitchens and 5) other related activities.

Construction activity on the O'Hare Development Program continued on Terminal 3 expansion/Concourse L development and was completed on June 1, 1984, 4 months ahead of schedule. Also during the year, construction was initiated on a new airport services complex which will house maintenance and snow removal vehicles as well as new flight kitchen facilities.

The design and engineering of some ninety major Phase II capital development projects was begun during the year and are now ready for construction pending final approval by the Federal Aviation Administration. The Department received the Federal Aviation Administration's preliminary approval on May 31, 1984.

ACCOUNTING SYSTEMS AND CONTROLS

DEPARTMENT OF AVIATION

Although the Department of Aviation approves and processes all documents for input to the system, accounting records for the Department are maintained by the Department of Finance. The funds are maintained by an independent trustee, using budgetary control procedures prescribed by the Annual Appropriation Ordinance, as approved by the Chicago City Council and administered by the Office of Budget and Management.

The five major sources of airport revenue are flight fees, terminal area use charges, concessions, rents and income earned on investments. With respect to flight fees, terminal area use charges, and rents, information provided by the Federal Aviation Administration is used to determine compliance with related agreements. In cooperation with the Chicago Airlines TOP Committee, flight fees are reviewed and, when necessary, are adjusted semi-annually to meet increases or decreases in expenditure needs. Contract and lease compliance by airport concessionaires is controlled in part by their monthly and annual revenue reports. In addition, internal audits are conducted on an ongoing basis by the Department of Finance to insure completeness and accuracy of all financial reporting systems.

During 1983, all outstanding Revenue Bonds were retired and \$175 million in new Revenue Bonds were issued.

BUDGETARY PROCEDURES

O'Hare is governed in all of its financial transactions by the City's Annual Appropriation Ordinance and must follow the City's budget process. The Department of Aviation confers with its airport consultant, the signatory airlines and other airline parties in the preparation of the airport budget. The Department of Aviation then submits its proposed budget, including the budget for O'Hare Airport, to the City's Budget Director. The Budget Director incorporates the Department's budget in the City budget proposal for approval by the Mayor, who in turn submits the City's budget to the City Council for approval.

FINANCIAL HIGHLIGHTS

DEPARTMENT OF AVIATION

	Years Ended December 31	
	<u>1983</u>	<u>1982</u>
<u>OPERATIONS</u>		
Flight Fees	\$43,570,929	\$46,096,512
Concessions & Rentals	45,011,868	47,507,578
Terminal Area Use Charges	11,603,098	--
Refund of Flight Fees	<u>(6,847,899)</u>	<u>--</u>
Operating Revenues	93,337,996	93,604,090
Interest Income and Other	<u>6,375,845</u>	<u>10,603,799</u>
Total Revenues	<u>\$99,713,841</u>	<u>\$104,207,889</u>
Operating Expenses	92,592,692	91,733,708
Interest Expense	3,295,220	2,827,039
Provision for Judgments	--	1,224,000
Loss From Early Extinguishment of Debt	<u>1,635,035</u>	<u>--</u>
Total Expenses	<u>\$97,522,947</u>	<u>\$95,784,747</u>
Revenues In Excess of Expenses	<u>\$2,190,894</u>	<u>\$8,423,142</u>
	=====	=====

	Years Ended December 31	
	<u>1983</u>	<u>1982</u>
<u>FINANCIAL POSITION</u>		
Cash and Investments	\$146,268,918	\$ 87,006,182
Receivables & Other Assets	25,469,453	17,612,355
Fixed Assets-Net	<u>268,542,051</u>	<u>227,975,976</u>
Total Assets	<u>\$440,280,422</u>	<u>\$332,594,513</u>
Revenue Bonds Payable (1983-Less Bond Discount of \$4,182,059)	170,817,941	38,474,000
Junior Lien Obligation	14,500,000	--
Other Liabilities	<u>44,726,953</u>	<u>27,112,413</u>
Total Liabilities	<u>\$230,044,894</u>	<u>\$65,586,413</u>
Total Equity	<u>\$210,235,528</u>	<u>\$267,008,100</u>
	=====	=====
Debt Service Coverage	5.06**	3.68*

*1959 Revenue Bond Ordinance

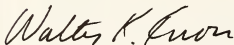
**1983 Revenue Bond Ordinance

The Honorable Harold Washington
Mayor
June 15, 1984
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DEPARTMENT OF AVIATION

ACKNOWLEDGEMENTS

As in any business enterprise, the hard work and dedication of the employees who work at O'Hare must be recognized as one of the airport's most valuable assets. To these employees we extend our appreciation and thanks. To the citizens of Chicago and the air-traveling public, we pledge our continued efforts to maintain the highest quality of service at Chicago O'Hare International Airport.



WALTER KNORR
City Comptroller
Department of Finance



THOMAS KAPSALIS
Commissioner
Department of Aviation

EXHIBIT I

1983 AIRPORT ACTIVITY — WORLD'S MAJOR AIRPORTS

<u>Airport</u>	<u>Total Passengers</u>	<u>Total Cargo (Tons)</u>	<u>Total Aircraft Operations</u>
CHICAGO O'HARE INTERNATIONAL.....	42,873,953	816,135	667,963
Hartsfield Atlanta International	37,919,802	491,047	612,791
Los Angeles International	33,426,731	877,810	506,176
Kennedy International (New York).....	27,904,474	1,164,272	304,322
Dallas/Fort Worth	26,785,852	334,546	435,490
Heathrow Airport (London).....	26,749,200	533,700	283,200
Stapleton International (Denver).....	25,247,105	208,762	458,088
San Francisco International.....	23,166,500	429,202	362,846
Miami International	19,321,718	537,183	341,622
LaGuardia (New York)	18,813,397	81,257	324,176

EXHIBIT II

CHICAGO O'HARE AIRPORT ACTIVITY (1979-1983)

	1979	1980	1981	1982	1983
Passengers					
Domestic Scheduled including					
Commuter	44,523,906	40,427,004	34,846,608	34,712,713	39,567,765
International Scheduled	2,791,076	2,776,332	2,742,410	2,566,106	2,793,494
All Other	527,528	449,831	403,133	464,779	512,694
TOTAL PASSENGERS	<u>47,842,510</u>	<u>43,653,167</u>	<u>37,992,151</u>	<u>37,743,598</u>	<u>42,873,953</u>
Aircraft Operations					
Scheduled Carriers (Domestic &					
International)	560,657	560,385	473,999	442,436	450,031
Commuter	69,417	67,905	84,198	87,541	129,927
All Other	105,171	95,865	87,417	74,406	88,005
TOTAL OPERATIONS	<u>735,245</u>	<u>724,155</u>	<u>645,614</u>	<u>604,383</u>	<u>667,963</u>
Cargo (Tons)					
TOTAL CARGO	857,574	828,475	828,530	792,786	816,135



CHICAGO-O'HARE INTERNATIONAL AIRPORT
MAINTENANCE COMPLEX
CITY OF CHICAGO HAROLD WASHINGTON, MAYOR
THOMAS KERSALUS, COMMISSIONER OF AVIATION
JEROME R. BUTLER, COMMISSIONER OF PUBLIC WORKS
JOSEPH W. CASSELL, CITY ARCHITECT



Extension of Terminal 3 and Construction of Concourse L

CHICAGO-O'HARE INTERNATIONAL AIRPORT

YEARS ENDED DECEMBER 31, 1983 AND 1982

CHICAGO-O'HARE INTERNATIONAL AIRPORT
YEARS ENDED DECEMBER 31, 1983 AND 1982

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The Members of the
City Council of the City of Chicago
Chicago, Illinois

We have examined the balance sheets of Chicago-O'Hare International Airport as of December 31, 1983 and 1982, and the related statements of changes in contributed capital, changes in retained earnings, revenues and expenses and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 1 to the financial statements, expenditures for capital improvements were made from operating revenues, which practice was not permitted under the 1959 Revenue Bond Ordinance. The 1959 Revenue Bonds were retired in 1983.

In our opinion, except for the effects on the 1982 financial statements of the failure to comply with certain provisions of the 1959 Revenue Bond Ordinance as discussed in the preceding paragraph, the 1983 and 1982 financial statements referred to above present fairly the financial position of Chicago-O'Hare International Airport as of December 31, 1983 and 1982, and the results of its operations and the changes in its financial position, contributed capital and retained earnings for the years then ended, in conformity with generally accepted accounting principles and the provisions of the Bond Ordinances applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for vacation benefits as described in Note 4 to the financial statements.



June 14, 1984

CHICAGO-O'HARE INTERNATIONAL AIRPORT
BALANCE SHEETS - DECEMBER 31, 1983 AND 1982

ASSETS		LIABILITIES AND FUND EQUITY	
	1983	1982	1983
		(Restated, Note 4)	(Restated, Note 4)
Current assets:			
Cash and U.S. government securities, at cost (Note 2)	\$ 35,203,007	\$ 19,108,497	
Accounts receivable, less allowance for doubtful accounts of \$1,574,384	11,147,962	13,483,607	\$ 6,670,000
Due from other City of Chicago funds	318,802	3,136,057	16,719,778
Prepaid expenses and deposits	569,621	505,254	7,852,589
Accrued interest receivable	200,754		31,232,281
Total current assets	<u>47,440,046</u>	<u>36,223,415</u>	<u>1,926,210</u>
Restricted assets:			
Cash and U.S. government securities, at cost (Note 2)	111,065,911	67,897,685	12,729,312
Accrued interest receivable	<u>2,274,750</u>	<u>437,457</u>	<u>1,267</u>
	113,340,821	68,395,122	307,325
			<u>2,234,802</u>
			17,816,054
			175,000,000
			(4,182,059)
			<u>31,804,000</u>
			31,804,000
Other assets:			
Airline terminal construction escrow (Note 3)	10,077,729		14,500,000
Deferred financing fees, net of amortization	879,775		261,625
	<u>10,957,504</u>		<u>230,044,894</u>
			65,586,413
Fixed assets:			
Land	55,294,641	55,294,641	130,596,780
Buildings and other facilities	35,848,522	35,848,522	76,431,237
Construction in progress	74,432,382	28,463,463	59,980,083
	463,000,507	411,327,996	136,411,320
	194,458,456	183,352,020	210,235,528
Less allowance for depreciation	<u>268,542,051</u>	<u>227,975,976</u>	<u>267,008,100</u>
	\$440,280,422	\$332,594,513	\$332,594,513
			139,551,638
			10,171,650
			60,512,240
			70,683,890
			210,235,528
			\$440,280,422

CHICAGO-O'HARE INTERNATIONAL AIRPORT
STATEMENTS OF CHANGES IN CONTRIBUTED CAPITAL
YEARS ENDED DECEMBER 31, 1983 AND 1982

	City of Chicago	State and Federal	Public Utility, Concessionaire and Airlines	Total
Balance, January 1, 1982	\$16,982,093	\$59,289,475	\$39,250,627	\$115,522,195
Add:				
Increase (decrease) in fixed assets:				
City of Chicago, net	4,084,519			4,084,519
State and federal governmental agencies	(5,784,231)	5,784,231		
Public Utility, Concessionaire and Airlines:				
Contributed			37,676	37,676
From reserve maintenance account			4,203,643	4,203,643
From operating revenues			10,281,791	10,281,791
	(1,699,712)	5,784,231	14,523,110	18,607,629
Less provision for depreciation	15,282,381	65,073,706	53,773,737	134,129,824
	143,610	1,945,824	1,443,610	3,533,044
Balance, December 31, 1982	15,138,771	63,127,882	52,330,127	130,596,780
Add:				
Increase (decrease) in fixed assets:				
City of Chicago	4,710,498			4,710,498
State and federal governmental agencies	(3,548,232)	3,548,232		
Public Utility, Concessionaire and Airlines:				
Contributed			13,310	13,310
From reserve maintenance account			929,364	929,364
From operating revenues, net of amounts from airlines of \$6,847,899 (Note 8) and grant proceeds received for prior year's capital expenditures of \$141,196			6,764,591	6,764,591
	1,162,266	3,548,232	7,707,265	12,417,763
Less provision for depreciation	16,301,037	66,676,114	60,037,392	143,014,543
	69,327	1,951,250	1,442,328	3,462,905
Balance, December 31, 1983	\$16,231,710	\$64,724,864	\$59,595,064	\$139,551,638

See notes to financial statements.

CHICAGO-O'HARE INTERNATIONAL AIRPORT
STATEMENTS OF CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 1983 AND 1982

	1983		1982		(Restated, Note 4)	
	Reserved	Unreserved	Total	Reserved	Unreserved	Total
Balance, beginning of year, as previously reported	\$78,603,237	\$59,980,083	\$138,583,320	\$92,400,688	\$48,552,880	\$140,953,568
Adjustment for the cumulative effect on prior years of applying retrospectively the new method of accounting for vacation pay (Note 4)	(2,172,000)		(2,172,000)	(2,013,000)		(2,013,000)
Balance, beginning of year, as restated	76,431,237	59,980,083	136,411,320	90,387,688	48,552,880	138,940,568
Add (deduct):						
Revenues in excess of expenses		2,190,894	2,190,894		8,423,142	8,423,142
Allocation of "net revenue" as defined by the 1959 Revenue Bond Ordinance, through May 12, 1983	2,689,397	(2,689,397)		33,614,566	(33,614,566)	
Allocation of "net revenue" as defined by the 1983 Revenue Bond Ordinance, through May 12, 1983, through December 31, 1983	14,486,773	(14,486,773)				
Interest earned on investments, restricted	3,884,857	(3,884,857)		7,170,888	(7,170,888)	
Provision for depreciation of assets contributed by the City of Chicago	487,202	(487,202)				
Transfer of premium on Revenue Bonds retired	(20,235)	(3,462,905)	(3,483,140)			
Application of deferred income from preceding year as reduction of flight fees	1,635,035	(1,635,035)		112,361	(112,361)	
Amounts expended for retirement of Revenue Bonds	(10,300,979)	10,300,979		(27,807,556)	27,807,556	
Amounts expended for retirement of Revenue Bonds	(40,109,035)	40,109,035		(18,444,653)	18,444,653	
Fixed assets acquired with operating revenue. The 1983 amounts are net of amounts from Airlines of \$6,847,899 (Note 8) and grant proceeds received from the City of Chicago						
\$14,190 per year's capital expenditures of						
Interest incurred on Revenue Bonds, net of capitalized interest	(2,881,795)	(6,764,591)	(9,646,386)	(2,827,039)	(10,301,791)	(13,128,830)
Interest incurred on Junior Lien Obligation	(413,425)	2,881,795	2,468,370		2,827,039	2,468,370
Expenditures from reserve maintenance account	(278,274)	(278,274)	(556,548)			
Expenses from deferred maintenance account	(1,531,817)	602,453	(929,364)	(5,775,018)	1,571,375	(4,203,643)
Transferred to City of Chicago Corporate Fund (Note 5)	29,223,425	(29,223,425)				
Transferred to City of Chicago Corporate Fund (Note 5)	(63,687,274)		(63,687,274)			
Balance, end of year	\$10,171,650	\$60,512,240	\$70,683,890	\$76,431,237	\$59,980,083	\$136,411,320

See notes to financial statements.

CHICAGO-O'HARE INTERNATIONAL AIRPORT
STATEMENTS OF REVENUES AND EXPENSES
YEARS ENDED DECEMBER 31, 1983 AND 1982

	<u>1983</u>	<u>1982</u> (Restated, Note 4)
Operating revenues:		
Flight fees	\$43,570,929	\$46,096,512
Rent, concessions and other	45,011,868	47,507,578
Terminal area use charges	11,603,098	
Refund of flight fees (Note 8)	(6,847,899)	
	<u>93,337,996</u>	<u>93,604,090</u>
Operating expenses:		
Salaries and wages	40,050,000	38,125,570
Provision for depreciation and amortization	11,126,661	11,238,653
Repairs and maintenance, including expenditures from Reserve		
Maintenance account	11,698,266	13,339,962
Other operating expenses	<u>29,717,765</u>	<u>29,029,523</u>
	<u>92,592,692</u>	<u>91,733,708</u>
Income from operations	<u>745,304</u>	<u>1,870,382</u>
Nonoperating income (expense):		
Interest earned on investments	6,375,845	10,378,452
Discount, net of premiums, on Revenue Bonds retired		225,347
Interest incurred on Revenue Bonds	(2,881,795)	(2,827,039)
Interest incurred on Junior Lien Obligation	(413,425)	
Provision for judgments		(1,224,000)
	<u>3,080,625</u>	<u>6,552,760</u>
Revenues in excess of expenses before extraordinary loss	3,825,929	8,423,142
Loss from early extinguishment of debt (Note 5)	(1,635,035)	
Revenues in excess of expenses	<u>\$ 2,190,894</u>	<u>\$ 8,423,142</u>

See notes to financial statements.

CHICAGO-O'HARE INTERNATIONAL AIRPORT
STATEMENTS OF CHANGES IN FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 1983 AND 1982

	<u>1983</u>	<u>1982</u> (Restated, Note 4)
Sources of working capital:		
From operations:		
Revenues in excess of expenses before extraordinary loss	\$ 3,825,929	\$ 8,423,142
Add (deduct) items not affecting working capital:		
Provision for depreciation and amortization	11,126,661	11,238,653
Amortization of deferred rental income	(53,705)	(48,697)
Amortization of bond discount	<u>104,116</u>	
Total from operations before extraordinary loss	15,003,001	19,613,098
Loss from early extinguishment of debt	(1,635,035)	
Total from operations	13,367,966	19,613,098
Proceeds from Junior Lien Obligation debt	14,500,000	
Proceeds from Revenue Bonds net of bond discount	170,713,825	
City of Chicago contributions for fixed assets	4,710,498	4,084,519
Airline contributions for fixed assets	<u>13,310</u>	<u>37,676</u>
	<u>203,305,599</u>	<u>23,735,293</u>
Uses of working capital:		
Acquisition of fixed assets	51,672,511	18,607,629
Payment of long-term debt	31,804,000	18,986,000
Increase in net restricted assets Transferred to City of Chicago	29,364,447	1,567,188
Corporate Fund	63,687,274	
Increase in other assets	<u>10,977,729</u>	
	<u>187,505,961</u>	<u>39,160,817</u>
Increase (decrease) in working capital	<u>\$ 15,799,638</u>	<u>(\$15,425,524)</u>

(continued)

CHICAGO-O'HARE INTERNATIONAL AIRPORT
STATEMENTS OF CHANGES IN FINANCIAL POSITION (CONTINUED)
YEARS ENDED DECEMBER 31, 1983 AND 1982

	<u>1983</u>	<u>1982</u> (Restated, Note 4)
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash and U.S. government securities	\$16,094,510	(\$13,163,398)
Accounts receivable, net	(2,335,745)	2,898,648
Due from other City of Chicago funds	(2,807,255)	1,692,890
Prepaid expenses and deposits	64,367	17,368
Due from Restricted Funds		(24,424)
Accrued interest receivable	<u>200,754</u>	
	<u>11,216,631</u>	<u>(8,578,916)</u>
Increase (decrease) in current liabilities:		
Current portion of Revenue		
Bonds payable	(6,670,000)	316,000
Accounts payable	173,907	4,003,423
Due to other City of Chicago funds	<u>1,913,086</u>	<u>2,527,185</u>
	<u>(4,583,007)</u>	<u>6,846,608</u>
Increase (decrease) in working capital	<u>\$15,799,638</u>	<u>(\$15,425,524)</u>

See notes to financial statements.

CHICAGO-O'HARE INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1983 AND 1982

1. Summary of significant accounting policies:

Basis of accounting:

The Airport is accounted for as an enterprise fund of the City of Chicago. The financial statements have been prepared on the accrual basis of accounting and conform with the reporting requirements set forth in the National Council of Governmental Accounting (NCGA) Statements.

Investments:

Investments consist of U.S. Treasury bills and Treasury notes, which are carried at cost plus accrued interest, which approximates market value. The aggregate costs at December 31, 1983 and 1982, are as follows:

	<u>1983</u>	<u>1982</u>
Unrestricted	\$ 515,502	\$ 5,386,992
Restricted	<u>105,916,602</u>	<u>67,232,231</u>
	<u>\$106,432,104</u>	<u>\$72,619,223</u>

Fixed assets:

All fixed assets are recorded at cost. Expenditures for the acquisition, construction or equipping of a capital project, together with related design, architectural and engineering fees are capitalized. Expenditures for vehicles and other moveable equipment are expensed as incurred. Fixed assets are acquired with funds from proceeds of revenue bonds and the following three sources:

CHICAGO-O'HARE INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 1983 AND 1982

1. Summary of significant accounting policies:

Fixed assets: (continued)

- A. City of Chicago, including capitalized interest of \$330,398 and \$119,064 for 1983 and 1982, respectively, for use of City of Chicago money. Interest is capitalized from the commencement of the improvement or construction activity through completion.
- B. Grant proceeds from state and federal governmental agencies. Expenditures are initially paid for by the City of Chicago and are transferred to the state and federal contributed capital category upon receipt of the grant proceeds.
- C. Public utility, concessionaire and airlines by direct reimbursements of amounts expended directly and indirectly from operating revenues. The 1959 Revenue Bond Ordinance did not allow the expenditure of operating revenues for capital improvements. However, the airlines' representative has agreed to these expenditures, which totaled \$13,753,686 in 1983 and \$10,281,791 in 1982. Using operating revenues for this purpose has the effect of increasing flight fees.

Depreciation:

The provision for depreciation is provided on a straight-line basis, and begins in the year following the year of acquisition or completion. The estimated useful lives of significant fixed asset categories are as follows:

Water drainage and sewer system	20-50 years
Runways, aprons, tunnels, taxiways, and paved roads	30 years
Buildings and hangars	25 years
Electrical system	15-20 years
Other	10-30 years

CHICAGO-O'HARE INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 1983 AND 1982

1. Summary of significant accounting policies: (continued)

Capitalization of interest cost:

Total interest incurred on revenue bonds amounted to \$11,414,440 in 1983 and \$2,827,039 in 1982. Capitalized interest totaled \$2,300,000 in 1983, which is net of interest income received of \$6,232,645.

Bond discount:

Discount on bonds is deducted from the face amount of bonds in the balance sheet and is to be amortized as additional interest expense on the bonds-outstanding method.

2. 1983 General Airport Revenue Bond Ordinance:

Cash and U.S. government securities as of December 31, 1983, were restricted for the following:

Construction fund	\$ 61,041,581
Capitalized interest fund	21,672,838
Debt service reserve fund	18,184,156
Debt service interest fund	5,119,566
Deferred maintenance fund	691,183
Maintenance reserve fund	3,058,288
Emergency reserve fund	915,083
Airline deposits	<u>383,216</u>
	<u>\$111,065,911</u>

Construction and capitalized interest fund assets are restricted for capital and interest costs during construction for the O'Hare Development Plan.

The debt service reserve fund and interest fund are restricted for the payment of bond principal and interest.

The deferred maintenance and maintenance reserve funds are restricted for qualified maintenance expenditures.

An amount equal to the sum of the annual provisions for depreciation and amortization of fixed and other assets acquired with City of Chicago money and interest on the City of Chicago money invested in fixed and other assets of the Airport is required to be deposited into the emergency reserve fund.

CHICAGO-O'HARE INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 1983 AND 1982

2. 1983 General Airport Revenue Bond Ordinance: (continued)

Under terms of a financing participation agreement, the City of Chicago (which is being reimbursed primarily from a federal grant) and certain participating airlines are sharing the cost of improvements to the federal inspection area within the International Terminal building. The participating airlines deposited \$1,022,451 in 1979 with the City, as the airlines' share of the project cost. As at December 31, 1983, \$369,746 was on deposit with the City Treasurer to pay for the remaining costs.

3. Airline terminal construction escrow:

The Airline terminal construction escrow was funded from proceeds of the 1983 Revenue Bonds (see Note 5), and is restricted for the retirement of the City of Chicago (Delta project) Series 1982-A Bonds due on October 1, 1985. These bonds relate to the common area costs of the new Airline terminal project completed in June 1984. The common area costs incurred on the terminal, which is included in construction in progress, amounted to \$14,932,371 at December 31, 1983.

4. Change in accounting for vacation pay:

Prior to 1983, the Airport accounted for the costs of employees' vacation pay benefits in the period in which they were paid. During 1983, as a result of the National Council of Governmental Accounting Statement No. 4, the Airport began accruing such benefits as they were earned. Retained earnings at January 1, 1983 and 1982, have been retroactively decreased by \$2,172,000 and \$2,013,000, respectively, which represents the effect of the change as of those dates. The effect on 1982 was to decrease revenues in excess of expenses by \$159,000. The accounting change had no material effect on the statement of revenues and expenses for 1983.

CHICAGO-O'HARE INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 1983 AND 1982

5. Revenue Bonds:

On March 31, 1983, the City Council of the City of Chicago adopted ordinances authorizing the issuance and sale of Chicago-O'Hare International Airport General Airport Revenue Bonds (1983 Series) for the purpose of financing or reimbursing the cost of improvements and expansion of the airport and to redeem existing outstanding bond obligations of the airport. On May 12, 1983, the City of Chicago issued \$175,000,000 1983 Series A and B Bonds. The proceeds were used as follows:

Retirement of 1959 Ordinance Bonds	\$ 29,223,425
Refunding of Series 1982-A Bonds related to Delta Project	25,010,100
Deposit to Debt Service Reserve Fund	18,184,156
Deposit to Construction Fund and Revenue Fund:	
Project accounts and Revenue Fund	76,421,144
Capitalized Interest Account	21,000,000
Cost of Issuance	875,000
Bond discount	<u>4,286,175</u>
Total bond issue	<u>\$175,000,000</u>

In connection with the retirement of the 1959 Bonds, \$1,635,035 of premiums were paid. These costs were accounted for as an extraordinary loss in accordance with Statement of Financial Accounting Standards No. 4, Reporting Gains and Losses from Extinguishment of Debt.

In accordance with the 1959 Revenue Bond Ordinance, the \$63,687,274 remaining in the Emergency Reserve Account after the payment of all 1959 Revenue Bonds was paid to the City of Chicago Corporate Fund.

CHICAGO-O'HARE INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 1983 AND 1982

5. Revenue Bonds: (continued)

The following is a schedule of maturities and applicable interest rates related to the 1983 Series Bonds:

January 1 of the year	Series A amount	Series B amount	Total	Interest rates
1985	\$ 290,000	\$ 160,000	\$ 450,000	6.00%
1986	310,000	695,000	1,005,000	6.50
1987	330,000	1,105,000	1,435,000	7.00
1988	350,000	1,210,000	1,560,000	7.50
1989	380,000	1,300,000	1,680,000	7.75
1990-2013	32,000,000	136,870,000	168,870,000	8.0% - 9.625%
	<u>\$33,660,000</u>	<u>\$141,340,000</u>	<u>\$175,000,000</u>	

6. Junior Lien Obligation debt:

The Airport obtained a \$25,000,000 line of credit from a bank, which expires June 30, 1984. As of December 31, 1983, the Airport had borrowed \$14,500,000 from the line of credit. The loan is due June 30, 1985. Interest is payable each January 1 and July 1 at the following rates:

- (1) From the date of the first loan through June 30, 1984, at the floating certificate of deposit rate plus 1% and,
- (2) From July 1, 1984, to payment of the loans, at the bank's corporate base rate.

The interest rates may be modified as defined in the agreement.

CHICAGO-O'HARE INTERNATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEARS ENDED DECEMBER 31, 1983 AND 1982

7. Leasing arrangements with tenants:

Leasing operations consist of the leasing of most of the Airport's land, buildings and terminal space to airlines and other tenants. The operating leases for most of the Airport's land, buildings and terminal space expire in 1998.

The following is a schedule by years of the minimum future rental income on noncancelable operating leases as of December 31, 1983:

<u>Year ending December 31,</u>	<u>Amount</u>
1984	\$ 9,895,975
1985	8,229,833
1986	7,781,833
1987	7,781,833
1988	7,746,593
Later years	<u>50,296,970</u>
Total minimum future rental income	<u>\$91,733,037</u>

At May 12, 1983, the 1983 Airport Use Agreement was signed by certain airlines. At the same time, the hangar, terminal, ramp and cargo building leases, in effect under the 1959 Airport Use Agreement for these airlines were canceled. The lost revenues from these leases will be recovered under the 1983 use agreement through the institution of a terminal use charge and a revision in the method of computing flight fees.

Rental income, consisting of all rental and concession revenues except ramp rentals and automobile parking, amounted to \$27,113,256 and \$26,979,817 in 1983 and 1982, respectively. Contingent rentals included in the totals were approximately \$11,878,000 and \$8,128,000 for 1983 and 1982, respectively. Contingent rentals which may be received under certain leases based on the tenant's revenues or fuel flow are not included in minimum future rental income.

CHICAGO-O'HARE INTERNATIONAL AIRPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1983 AND 1982

8. Refund to airlines:

Certain capital expenditures from operating revenues were for design, development and planning associated with the O'Hare Development Plan. The airline parties approved these expenditures with the understanding that they would be reimbursed by the City of Chicago from proceeds of the sale of the 1983 General Airport Revenue Bonds. The amount refundable to the airlines for these expenditures totaled \$6,847,899, was paid in June and November 1983, and was accounted for as a reduction of flight fees in the statement of revenue and expenses.

9. Pension plans:

The employees of the City of Chicago are covered under various contributory retirement plans established by state statute and administered by independent pension boards. Substantially all of the Airport employees are members of the Policemen's Annuity and Benefit Fund of Chicago, the Firemen's Annuity and Benefit Fund of Chicago, the Municipal Employees', Officers' and Officials' Annuity and Benefit Fund of Chicago or the Laborer's and Retirement Board Employees' Annuity and Benefit Fund of Chicago.

Each pension plan is financed primarily by (a) city contributions, (b) employee contributions, and (c) income from pension fund investments. The city's contributions, which are established by state statute, are multiples of the employees' contribution made two years prior. The city's contribution is financed through a separate property tax levy and the personal property replacement tax. The Airport reimburses the city's corporate fund for the estimated contribution which pertains to Airport employees. These reimbursements, recorded as expense, amounted to \$3,556,719 and \$3,510,707 in 1983 and 1982, respectively.

All pension funds receive an actuarial valuation annually. However, the amount of unfunded liabilities or required current-year actuarial provisions which pertain expressly to the Airport are not computed, as no specific identification of Airport employees is made for actuarial purposes.

CHICAGO-O'HARE INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 1983 AND 1982

10. Commitments and contingencies:

Purchase orders and contract commitments to be financed by the operation and maintenance account totaled approximately \$21,974,000 and \$13,676,000 at December 31, 1983 and 1982, respectively. In addition, approximately \$4,183,000 and \$10,708,000 at December 31, 1983 and 1982, respectively, had been earmarked by Airport management for specific future projects, although not under purchase order, contract or other formal commitment.

11. 1983 General Airport Revenue Bond Ordinance - "net revenues for calculation of coverage" as defined and calculation of "coverage" as defined:

The 1983 General Airport Revenue Bond Ordinance provided that certain items be accounted for as reductions or increases to revenues in excess of expenses. For purposes of the following calculation, the "bond year" is the period May 13, 1983, through December 31, 1983. "Net revenues for calculation of coverage" as defined by the 1983 General Airport Revenue Bond Ordinance is determined as follows:

CHICAGO-O'HARE INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 1983 AND 1982

11. 1983 General Airport Revenue Bond Ordinance - "net revenues for calculation of coverage" as defined and calculation of "coverage" as defined: (continued)

Revenue in excess of expenses before extraordinary loss for the year ended December 31, 1983	\$ 3,825,929
Less revenues in excess of expenses before extraordinary loss for the period January 1, 1983, through May 12, 1983	<u>1,849,174</u>
Revenues in excess of expenses for the period May 13, 1983, through December 31, 1983	1,976,755
Add (deduct) adjustments to reflect ordinance basis of accounting:	
Interest payable on Revenue Bonds, net of \$1,874,781 of interest prepaid by bond holders	10,471,009
Interest payable on Junior Lien Obligation	413,425
Depreciation and amortization for the period May 13, 1983, through December 31, 1983	7,107,267
Amortization of bond discount	104,116
Amortization of deferred financing fees	20,225
One-half the net revenue in Land Support Cost Revenue Center	(381,874)
Balance held in the Revenue Fund at May 12, 1983	9,708,442
Interest earned, Emergency Reserve Fund	(21,613)
Interest earned, Construction Fund	(<u>5,167,420</u>)
"Net revenues for calculation of coverage" as defined	<u>\$24,230,332</u>

CHICAGO-O'HARE INTERNATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEARS ENDED DECEMBER 31, 1983 AND 1982

11. 1983 General Airport Revenue Bond Ordinance - "net revenues for calculation of coverage" as defined and calculation of "coverage" as defined: (continued)

The 1983 General Airport Revenue Bond Ordinance requires the "net revenues for calculation of coverage" to be allocated as follows:

"Net revenues for calculation of coverage", as defined	<u>\$24,230,332</u>
Required deposits from revenues to funds:	
Operation and maintenance reserve	\$ 5,112,500
Maintenance reserve	3,000,000
Junior Lien Obligation debt service fund	<u>413,425</u>
Total required deposits	<u>8,525,925</u>
Amount available for calculation of coverage	15,704,407
Aggregate debt service for the bond year, net of \$1,874,781 of interest prepaid by bond holders	\$10,471,009
Less amount in capitalized interest account for payment of interest	(7,364,312)
	<u>3,106,697</u>
Percentage required by the ordinance	<u>125%</u>
Net aggregate debt service as required by General Airport Revenue Bond Ordinance	<u>3,883,371</u>
Excess "net revenues" for calculation of coverage under the ordinance	<u>\$11,821,036</u>

Section 704(b) of the General Airport Revenue Bond Ordinance also requires an allocation to the Debt Service Reserve. No allocation is reflected above as the reserve was funded at the total required amount from proceeds of the bond issue. Also, the Operations and Maintenance Reserve and Maintenance Reserve have been funded at \$14,500,000 and \$3,000,000 respectively. For the period May 13, 1983, through December 31, 1983, there was no required allocation to Special Capital Projects Fund.







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